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TAX·FEATURES

Drop in '83 U.S. Tax Load To Be Followed by Big Jump in '84

First the good news: The Federal tax burden in the current fiscal year (1983) will be $18.8 billion less than it was last year ($578.7 billion vs. $597.5 billion). Then the bad news: Next year, fiscal year 1984, Federal tax revenues will climb by $61.5 billion (10.6 percent) over 1983 levels. These are among the findings of Tax Foundation economists working with the data in the Administration's 1984 Budget as presented to Congress on January 31.

Not only is there good news and bad news, say Foundation researchers. There are also "winners" and "losers." The Federal tax burden falls unevenly upon the states. In contrast to Treasury calculations which show where taxes are collected, Tax Foundation economists have devised a formula to show where the ultimate tax burden rests. For example, excise taxes on tobacco products are collected mainly in a few southern states. But smokers in all states ultimately bear this burden.

Foundation researchers tally up winners and losers in two ways:

Total Taxes Paid

Predictably, states with the most people tend to pay the most total tax dollars. By this reckoning, winners, i.e., low-payers, are:

Vermont	$1.0 billion
South Dakota	$1.4 billion
Wyoming	$1.5 billion
North Dakota	$1.6 billion
Alaska	$1.6 billion

Citizens in the lowest-paying ten states will bear about 3 percent ($16.7 billion) of the total Federal tax burden in 1983. By contrast, citizens in the ten largest states will foot 58 percent ($332.4 billion) of the bill. These states are:

California	$68.4 billion
New York	$47.2 billion
Texas	$39.8 billion
Illinois	$33.6 billion
Pennsylvania	$29.6 billion
Ohio	$26.9 billion
Florida	$24.9 billion
Michigan	$23.3 billion
New Jersey	$23.2 billion
Massachusetts	$15.5 billion

Per Capita Taxes

On the other hand, per capita tax burdens tend to hit hardest in states with relatively high average income levels. Federal tax burdens for fiscal year 1983 are estimated to be lowest in:

Mississippi	$1,626
Arkansas	$1,746
South Carolina	$1,797
Vermont	$1,827
Alabama	$1,871

(Continued on page 2)

State-Local Taxes Jump 11% Breaking $1/4 Trillion Mark

State and local taxes—including unemployment compensation—broke the $1/4 trillion mark as they rose to hit $262.1 billion for fiscal year 1981. This $25.9 billion (11 percent) increase in fiscal 1981 marked the first time these levies had passed the quarter-trillion mark, according to Tax Foundation researchers.

State taxes make up $167.2 billion of that total, local taxes account for $94.9 billion, and unemployment

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Per Capita State and Local Taxes

Number in parentheses indicates standing of states according to burden of state and local tax. Dollars equals per capita tax in fiscal year 1981. *(Tax Foundation map)*

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Estimated Total and Per Capita Federal Tax Burdens, by State
Fiscal Years 1982 – 1984[a]

State	Total burden (millions)			Per capita burden			State rank 1983	
	1982	1983	1984	1982	1983	1984	Total	Per capita
TOTAL	$597,472	$578,702	$640,203	$2,587	$2,482	$2,720	—	—
Alabama	7,583	7,395	8,214	1,929	1,871	2,069	25	47
Alaska	1,679	1,644	1,811	4,007	3,832	4,125	47	1
Arizona	6,612	6,400	7,096	2,328	2,206	2,394	28	36
Arkansas	4,137	4,031	4,496	1,798	1,746	1,943	33	50
California	70,717	68,402	75,737	2,885	2,744	2,987	1	10
Colorado	8,271	7,996	8,811	2,747	2,603	2,811	23	14
Connecticut	10,945	10,549	11,590	3,476	3,330	3,637	19	3
Delaware	1,711	1,656	1,827	2,852	2,751	3,024	46	9
Dist. of Col.	2,146	2,070	2,282	3,422	3,334	3,711	43	2
Florida	25,896	24,855	27,448	2,477	2,296	2,448	7	31
Georgia	11,819	11,506	12,747	2,096	2,009	2,192	16	38
Hawaii	2,596	2,519	2,794	2,622	2,511	2,753	38	19
Idaho	1,924	1,870	2,087	1,987	1,908	2,106	44	45
Illinois	34,788	33,626	37,120	3,029	2,921	3,217	4	5
Indiana	13,386	12,966	14,320	2,455	2,387	2,646	12	29
Iowa	7,358	7,099	7,891	2,546	2,467	2,755	26	23
Kansas	6,364	6,145	6,811	2,658	2,551	2,810	30	17
Kentucky	7,239	7,055	7,833	1,977	1,928	2,141	27	43
Louisiana	10,313	10,006	11,043	2,360	2,246	2,434	21	35
Maine	2,219	2,159	2,403	1,950	1,889	2,092	42	46
Maryland	12,478	12,096	13,331	2,909	2,796	3,057	14	8
Massachusetts	15,960	15,483	17,134	2,755	2,661	2,932	10	13
Michigan	24,032	23,326	25,798	2,621	2,557	2,844	8	16
Minnesota	10,761	10,432	11,563	2,623	2,536	2,803	20	18
Mississippi	4,238	4,135	4,601	1,671	1,626	1,805	32	51
Missouri	11,762	11,379	12,596	2,374	2,290	2,526	17	33
Montana	1,855	1,803	2,011	2,331	2,251	2,498	45	34
Nebraska	3,932	3,788	4,204	2,487	2,390	2,644	35	27
Nevada	2,550	2,469	2,724	2,917	2,704	2,855	39	11
New Hampshire	2,394	2,319	2,555	2,533	2,423	2,640	41	25
New Jersey	23,889	23,204	25,628	3,218	3,115	3,429	9	4
New Mexico	2,705	2,632	2,924	2,011	1,926	2,105	37	44
New York	48,886	47,162	52,247	2,774	2,672	2,957	2	12
North Carolina	12,148	11,840	13,134	2,025	1,954	2,146	15	42
North Dakota	1,655	1,594	1,772	2,504	2,401	2,652	48	26
Ohio	27,795	26,935	29,788	2,581	2,506	2,777	6	20
Oklahoma	7,651	7,400	8,192	2,433	2,309	2,508	24	30
Oregon	6,567	6,389	7,109	2,468	2,389	2,646	29	28
Pennsylvania	30,447	29,601	32,824	2,565	2,495	2,768	5	22
Rhode Island	2,458	2,397	2,666	2,571	2,495	2,762	40	21
South Carolina	5,946	5,810	6,451	1,861	1,797	1,973	31	49
South Dakota	1,397	1,350	1,508	2,045	1,985	2,230	50	40
Tennessee	9,664	9,406	10,421	2,090	2,029	2,241	22	37
Texas	41,233	39,802	43,769	2,732	2,561	2,736	3	15
Utah	2,994	2,923	3,255	1,928	1,827	1,974	36	48
Vermont	1,068	1,039	1,156	2,058	1,986	2,197	51	39
Virginia	13,945	13,529	14,927	2,545	2,440	2,661	11	24
Washington	12,540	12,178	13,456	2,938	2,807	3,053	13	7
West Virginia	3,970	3,874	4,296	2,033	1,984	2,200	34	41
Wisconsin	11,312	10,970	12,161	2,375	2,290	2,525	18	32
Wyoming	1,537	1,488	1,641	3,043	2,846	3,034	49	6

[a]Data for 1982 are actual; 1983 and 1984 are estimated.

Source: U.S. total taxes as shown in the Federal budget submitted January 1983; computations of total and per capita burdens by state were made by Tax Foundation.

Monthly Tax Features

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Tax Foundation, Incorporated
1875 Connecticut Avenue, N.W.
Washington, D.C. 20009
(202) 328-4500

(FEDERAL TAX BURDEN, from page 1)

High payers are the people living in the following ten states:

Alaska	$3,832
District of Columbia	$3,334
Connecticut	$3,330
New Jersey	$3,115
Illinois	$2,921
Wyoming	$2,846
Washington	$2,807
Maryland	$2,796
Delaware	$2,751
California	$2,744

Nationwide, the average per capita Federal tax burden for 1983 is estimated at $2,482, 4.1 percent lower than last year; but it is projected to climb 9.6 percent and hit $2,720 in 1984.

Further details and state-by-state breakdowns are available from Tax Foundation.

Tax Hikes in 23 States Will Bring in $4 Billion From Non-Property Levies

State tax revenues will jump more than $4 billion above the amounts that would have been raised under tax rates prevailing on January 1, 1982, according to estimates by Tax Foundation economists. The increase reflects changes in nonproperty taxes put into effect in 23 states during the last calendar year.

Between January 1, 1982 and January 1, 1983, there were 43 rate increases in the 233 separate nonproperty tax levies, Foundation researchers say. Almost one out of every five major state tax rates increased last year.

Individual income taxes were hiked in ten states; general sales and cigarette taxes each, in nine states; motor fuels taxes, in eight states; and corporate income taxes climbed in seven states. General sales and use taxes, levied by forty-five states, continue to be the single most productive revenue source.

In 27 states with sales taxes, localities may also levy their own sales tax. New York City's combined 8.25 percent state-local sales tax is the highest in the nation. Oklahoma's 2 percent state rate is the lowest, although local taxes imposed on top of this rate range up to 3 percent. In fiscal year 1981, state general sales taxes accounted for 31.0 percent of all state tax collections, bringing in $46.4 billion in revenues.

Income taxes, both individual and corporate, continue to be major revenue raisers for states, second only to sales taxes. Only five states—Nevada, South Dakota, Texas, Washington, and Wyoming—continue to dispense with corporate and personal income tax revenues. Alaska and Florida have no individual income tax, but do impose corporate income taxes. (Connecticut, New Hampshire, and Tennessee have very narrowly based individual income taxes.) Individual income taxes composed 27.3 percent of all state tax revenues, while corporate income taxes accounted for 9.4 percent of those revenues, a slight shift over last year in the direction of individual income taxes. The total take from income taxes by states in fiscal year 1981 amounted to $55.0 billion, up $0.6 billion over the preceding year.

(Continued on page 4)

ERTA's Tax Cuts Slowly Fade Away

The second session of the 97th Congress chopped away at the 1981 tax act (ERTA), and the result was TEFRA, which repealed about half the business-oriented provisions of the 1981 act. The first session of the new 98th Congress will keep on whittling. And the result, rather than carving a fiscal Mount Rushmore, will more likely resemble the infamous Chinese Death of 1,000 Cuts.

ERTA had a three-fold core:

- phased in 25 percent reduction in the marginal rates on individual income;
- indexation of future taxes to the rate of inflation; and
- significant reform in the tax treatment of capital depreciation.

TEFRA repealed significant elements of the corporate tax changes and imposed much stronger reporting and withholding requirements on corporations and individuals.

December 1982 brought the Highway Revenue Act of 1982, hiking the Federal excise tax on gasoline from 4¢ a gallon to 9¢ a gallon, effective April 1983. Social Security payroll tax hikes already written into law will have significant revenue impact in fiscal years 1982-86, regardless of the fate of the fragile compromise now working its way through the legislative gristmill.

(Continued on page 4)

"Social Security payroll tax hikes already written into law will have significant revenue impact in fiscal years 1982-1986."

THE FRONT BURNER

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Déjà Vu"

If you feel an eerie sense of the familiar as the 1983 tax debate gets underway, don't be surprised. We have been down this path before—last year.

What the first year of the 98th Congress promises to give us is TEFRA revisited. I suppose that's acceptable, if the goal is raising money as distinct from intelligent tax policy.

ERTA, the 1981 act, presented essentially three policy elements: a 25 percent across-the-board personal tax cut phased in over three years; indexing of the tax system to prevent the automatic revenue increase caused by inflation; and business tax provisions targeted on investment, R&D, and capital formation.

TEFRA, 1982's act, began the dismantling of this carefully thought out tax reduction program, making not even the slightest nod in the direction of rational tax policy. The goal was simple: to raise $98 billion. The goal was achieved.

As the Budget for Fiscal Year 1984 enters the Congressional gristmill, deficits in the $180-200 billion range are being touted. Can there be any serious doubt that we will soon see an assault on what remains of ERTA?

The third year of the personal tax cut is already being challenged. Indexing has come under heavy fire. It is distressing to see indexing castigated as some sort of irresponsible give-away, when all it does is prevent the Federal government from receiving an unlegislated revenue windfall every time inflation rises.

One skirmish to reverse the inroads of Congress on ERTA deserves an aside. A drive has been mounted to repeal the withholding requirements for income from dividends and interest. The response on the Hill has been petty vindictiveness. Those who dare question the omniscience of the taxwriters are threatened with hints of other, harsher measures.

Such small-mindedness has not characterized tax policy in the past. It ought not be the response to those exercising their right to speak out on legislation that affects them.

Finally, there is talk of more taxes on the corporate sector. Since TEFRA took away about half the business-oriented provisions of ERTA, it is hard to imagine that anything will be left by the time this year's revenue raid on the private sector ends.

These "policies" will, of course, have absolutely no effect on the long-term deficiencies of the social security system (assuming the fragile compromise for solving the short-term problems survives). They will also not address the continued growth of Federal spending and the politicians' unwillingness to deal with the thorny issue of so-called entitlements and indexed benefits. They will also not make any kind of dent in the $130 billion in spending cuts that were promised, but not delivered, by Congress last year.

As the songwriter put it, "It seems to me I've heard that song before." And it is indeed a sad song. I can't help thinking there must be a better way to formulate tax policy. It is inconceivable that there could be a worse one.

"It is distressing to see indexing castigated as some sort of irresponsible give-away."

"It is hard to imagine that anything will be left by the time this year's revenue raid on the private sector ends."

"Despite the erosion of ERTA last year, the marginal rate cuts of the 1981 tax act survive as the dominant policy change of this decade."

(ERTA, from page 3)

Finally, the unlegislated tax increase of inflation-caused "bracket-creep" will take another bite from American incomes.

The table below shows the change in aggregate receipts for each fiscal year from each of these sources, through 1986.

Despite the erosion of ERTA last year, the marginal rate cuts of the 1981 tax act survive as the dominant policy change of this decade. This will no longer be true, however, if the indexing of individual income tax brackets for inflation is repealed. Naturally, continued slowing of inflation lessens the impact of the indexing provision.

The Social Security hikes already on the books and proposals for more increase in later years will erode ERTA's benefit further. It is conceivable that ERTA will be like the Cheshire cat of Lewis Carroll's Wonderland —nothing but a smile, with only the structural reform removing some of the bias against savings in the individual income tax structure through lower marginal rates and expanded IRA's.

Effect on Budget Receipts of Enacted Legislation and "Bracket-Creep" by Source

Fiscal Years 1982 - 1986

(Billions of dollars)

Source	1982	1983	1984	1985	1986	1982–86
Economic Recovery Tax Act	-35.6	-82.6	-130.3	-158.2	-202.3	-609.0
Tax Equity and Fiscal Responsibility Act		17.3	38.3	42.2	52.1	149.9
Highway Revenue Act of 1982		1.7	3.8	3.9	3.9	13.2
Social Security amendments	1.9	5.3	8.7	20.2	30.5	66.6
	-33.7	-58.3	-79.5	-91.9	-115.8	-379.3
Inflation-induced[a] revenue increases	15.0	22.7	31.8	—	—	69.5
Net change from above sources	-18.7	-35.5	-47.7	-89.9	-115.8	-309.8

[a] Represents gain in individual income tax receipts only, due solely to the cumulative effect of inflation moving taxpayers into higher marginal brackets. Indexing of individual taxes, effective 1/1/85, ends "bracket creep."

Source: Office of Management and Budget, and Tax Foundation calculations.

(STATE-LOCAL TAXES, from page 1)

compensation levies, levied primarily by the states, supply the remaining $17.6 billion.

The jump from 1980 to 1981 was the largest percentage increase in four years (collections rose by 11.1 percent in 1977) and was slightly above the 10.4 percent annual average for the period 1971-1981.

Tax Foundation economists draw the following comparisons: From 1971-81, state-local taxes rose 169 percent. Federal tax collections rose 217 percent (12.2 percent per year); population, 11.9 percent (1.1 percent per year); personal income, 178 percent (10.8 percent per year); and prices, 125 percent (8.4 percent annually).

When unemployment taxes are removed from the totals, general state-local tax collections still rose 9.4 percent from 1980 to 1981, up $21.0 billion, for a total of $244.5 billion. During the 1971-81 decade, such levies rose by 157.5 percent, or at an average annual rate of 9.9 percent.

Throughout the decade, state-level taxes outpaced local collections, jumping from 54 percent of the take in 1971 to 61 percent in 1981, say Foundation economists.

State and local general tax collections (not counting unemployment compensation) averaged $1,079 per capita in fiscal 1981—almost two-and-a-half times the $460 per capita level prevailing in 1971. This growth, however, lagged behind increases in personal income; nationwide, state-local general tax collections dropped from $119 to $113 for every $1,000 of personal income, a 5 percent decrease.

Details appear in the map on page 1. For further information, contact Tax Foundation.

(STATE TAX HIKES, from page 2)

Every state in the Union taxes gasoline. In fiscal 1981, $9.7 billion—6.5 percent of the total tax take—flowed to state coffers from motor fuels taxes.

Cigarette taxes contributed 2.6 percent of the total tax revenues garnered by the states in fiscal 1981, a total of $3.9 billion.

Further details and a table showing major taxes and rates prevailing in the states are available from Tax Foundation.

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